

# Lottery Commission



**Joint NER Appropriations Subcommittee**  
**April 9, 2013**



**FISCAL RESEARCH DIVISION**  
A Staff Agency of the North Carolina General Assembly

# Lottery Commission

- **9 Commission Members**
  - 5 appointed by the Governor
  - 2 appointed by the President Pro Tem
  - 2 appointed by the Speaker
- **249 Employees**
  - Administration (115)
    - Public affairs, legal, internal audit, HR, finance, security, IT
  - Communications (23)
  - Sales (111)
- **5 Regional Offices**

# How is the Lottery Commission Different?

- State enterprise agency
  - Does not receive General Fund appropriation
  - Generates revenue
- Lottery Commission sets budget
- No continuation budget, changes based off of budget approved by Commission
  - Statewide adjustments (salary/benefits/policies) apply to Lottery Commission

# Where Does the Money Come From?

## FY 2011-12 Ticket Sales (\$ in millions)

- Instant Ticket - \$959.96
- Powerball - \$153.92
- Mega Millions - \$85.56
- Pick 3 - \$247.75
- Pick 4 - \$91.53
- Cash 5 - \$57.97
- Total - \$1,596.69

**Fees/Licenses**  
**\$5.38**

**Investment Earnings**  
**\$0.52**

**Prize Tickets/Bad Debt**  
**(\$0.24)**

# Lottery Act Guidelines

## Initial Distribution of Revenues

- 50% (or more) returned in prizes
- 35% (or more) provided for education
- 8% (or less) provided for administration
  - Advertising not-to-exceed 1%
- 7% (or less) provided to retailers
- Created Lottery Reserve Fund
  - Used to cover unanticipated revenue shortfalls
  - 5% of prior year revenue - capped at \$50 million

# NCGA Changes to Lottery Act

**S.L. 2007-323** – Gave flexibility to Lottery Commission to return a larger **percentage** of revenues to prizes if overall education revenues increased.

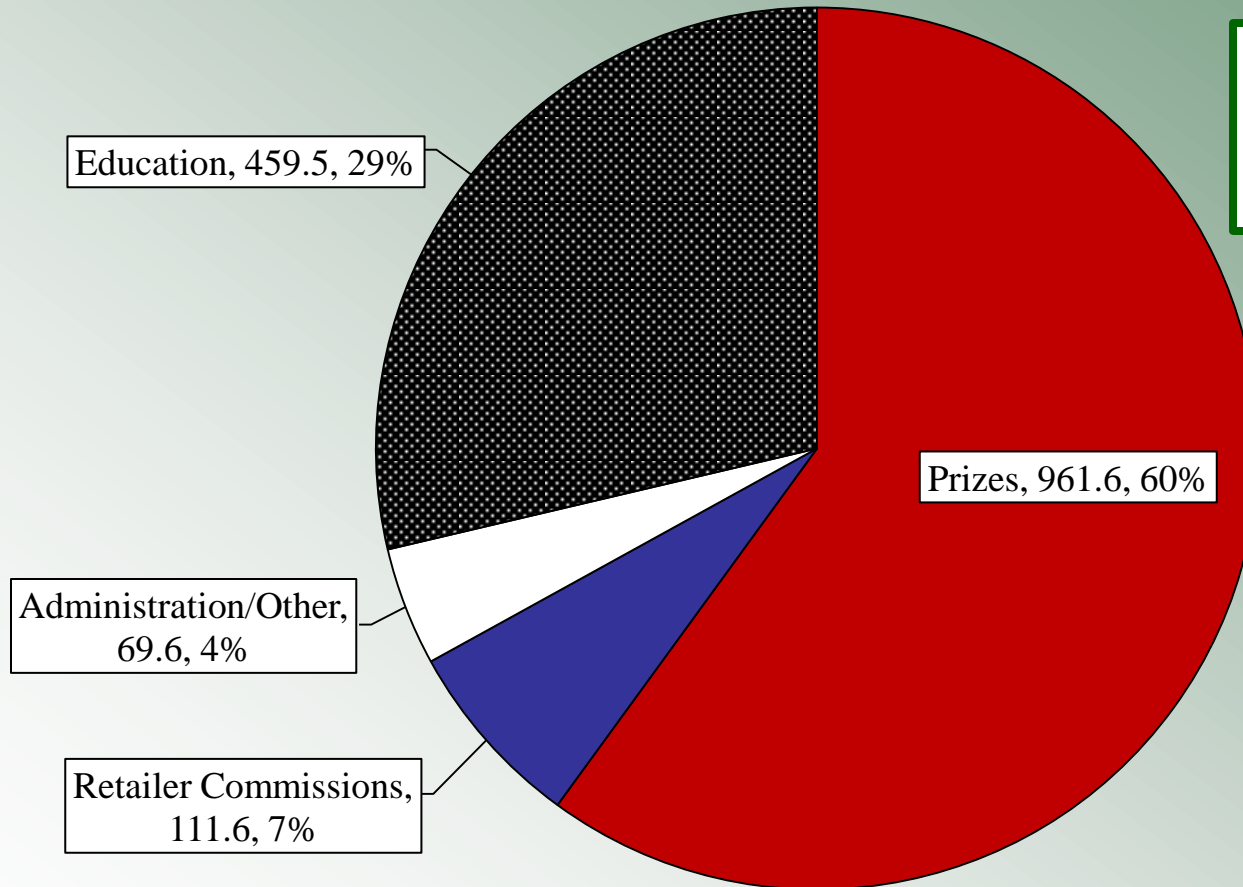
## **Example**

Initial Allocation:  $\$100 \times 35\% = \$35$

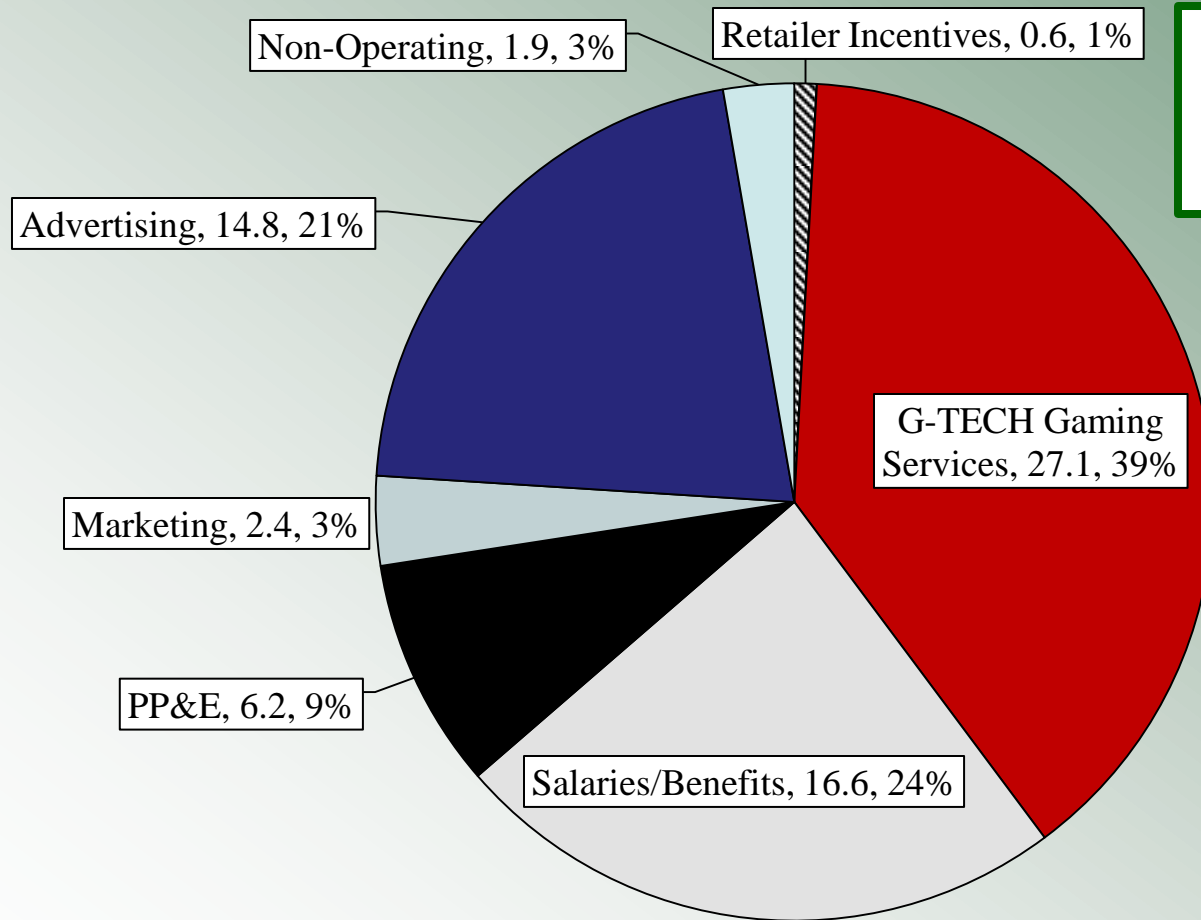
Revised Allocation:  $\$120 \times 30\% = \$36$

# Where Does the Money Go?

**FY 2011-12 Receipts**  
*(\$ in millions)*  
**\$1,602.36**



# Administration/Other



**FY 2011-12**  
***(\$ in millions)***  
**\$69.6**



# Lottery Act Guidelines

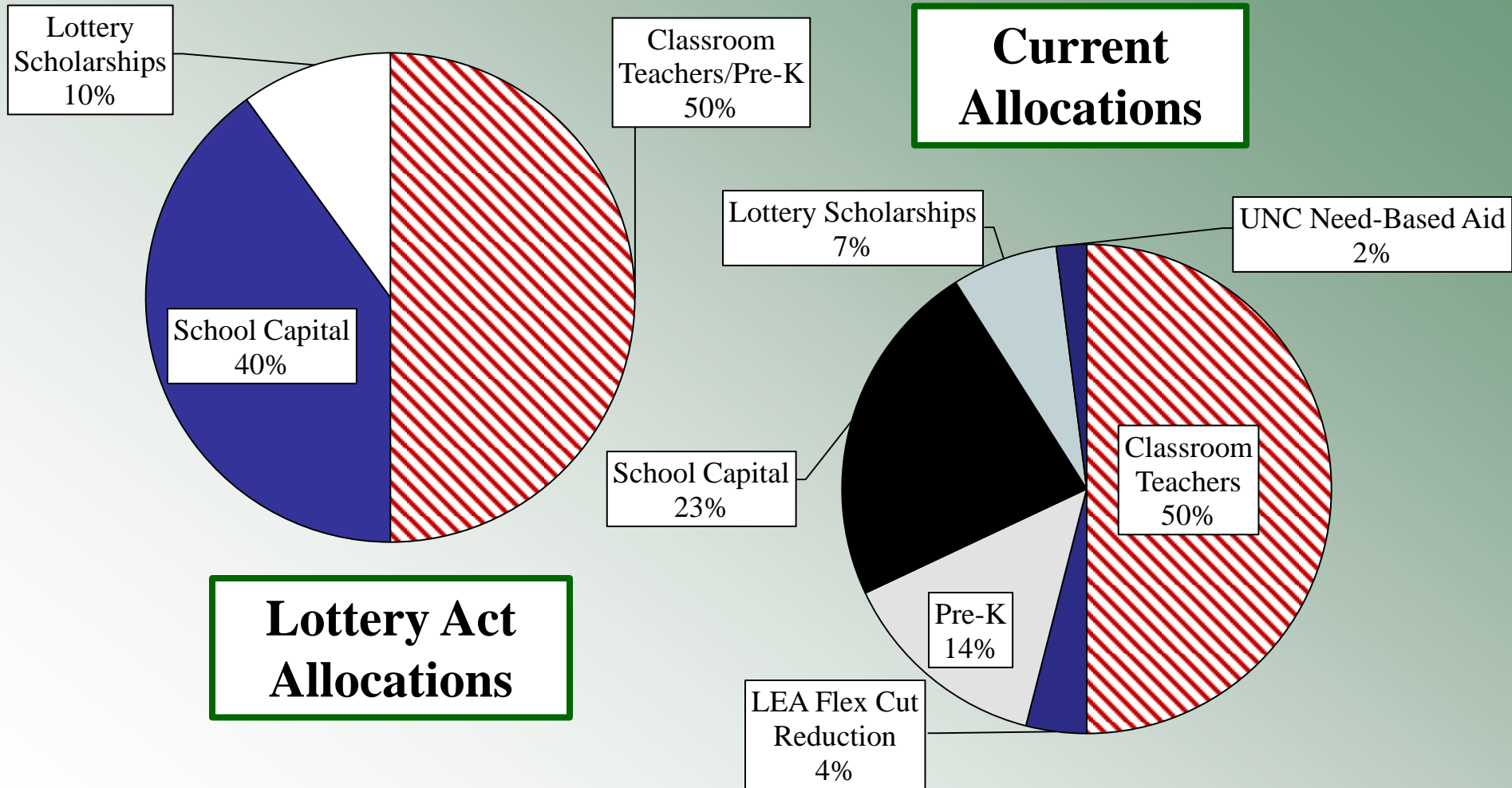
## Initial Education Lottery Fund Distributions

- 50% - additional teachers (K-3) and NC Pre-K program
- 40% - Public School Capital
- 10% - College and UNC scholarships

## S.L. 2010-31

- Appropriations Act allocated education funds differently than the 50-40-10 guidelines

# Lottery Act v. Current Education Revenue Allocation



# Governor's Recommendation

- Adjust retailer incentives to more closely match FY 2011-12 actuals (\$350,000 R)
- Management flexibility reduction (\$1,380,109 R)
- Eliminate four vacant positions (\$201,150 R)
- Adjust gaming system service expenditures (\$59,264 R)
- Reduce advertising budget from 1% of total revenue to 0.5% (\$7,426,892 R)
- Reduce marketing budget (\$800,000 R)
- Adjust budget for license and permit costs (\$4,477 R)

# Governor's Recommendation v. FY 2012 Actuals

	<b>FY 2011-12 Actuals</b>	<b>FY 2013-14 Lottery Budget</b>	<b>FY 2013-14 Gov Budget</b>
<b>Retailer Incentives</b>	609,000	1,000,000	650,000
<b>Management Flexibility Reduction</b>	22,868,861	26,907,000	25,526,891
<b>Eliminate Vacant Positions</b>	201,150	201,150	201,150
<b>Gaming Service Expenditures</b>	27,109,158	26,438,168	26,378,904
<b>Reduce Advertising Budget</b>	14,771,766	15,500,000	8,073,108
<b>Reduce Marketing Budget</b>	2,436,931	4,050,000	3,250,000
<b>License &amp; Permit Costs</b>	5,381,461	5,200,000	5,204,477
<b>Totals</b>	<b>\$ 73,378,327</b>	<b>\$ 79,296,318</b>	<b>\$ 69,284,530</b>

# Lottery Advertising Comparison

State	2012 Revenue (\$ in millions)	Advertising (% of revenue)	Marketing (% of revenue)
North Carolina	\$ 1,602	0.9%	0.2%
Georgia	\$ 3,564	0.6%	0.5%
South Carolina	\$ 1,139	0.7%	0.0%
Tennessee*	\$ 1,106	0.8%	0.3%
Virginia	\$ 1,616	1.4%	0.0%
California	\$ 4,371	1.1%	0.1%
Kentucky	\$ 768	1.1%	0.0%

\*2011 - Most recent audited financial statement available online

# Per Capita Sales Comparison

State	2010 Census Population	Purpose of Funds	Sales Revenue	Prize Payments	Payments to State	Per Capita Sales
			<i>\$ in millions</i>			
<b>North Carolina</b>	9,535,483	Education	1,596.7	961.5	459.2	167.4
<b>South Carolina</b>	4,625,364	Education	1,135.6	721.4	300.0	245.5
<b>Virginia</b>	8,001,024	Education	1,616.0	962.3	487.1	202.0
<b>Tennessee</b>	6,346,105	Education	1,311.2	770.6	323.4	206.6
<b>Georgia</b>	9,687,653	Education	3,834.7	2,289.8	901.3	395.8
<b>Florida</b>	18,801,310	Education	4,449.9	2,792.5	1,317.0	236.7
<b>Kentucky</b>	4,339,367	General Fund	818.8	523.2	216.4	188.7

**Sources: U.S. Census Bureau, LaFleur's 2012 FastFacts Directory**

# Revenue Transfer Projections

- FRD/OSBM forecast without any changes
  - \$450.5 million
- Governor's Budget
  - Reductions do not impact lottery receipts
  - Administrative reductions add to amount available to transfer for education
- Lottery Commission
  - Advertising reductions could decrease annual transfer

# Key Takeaways

- Fully receipt supported
- Per capita sales lower than our neighbors
- As a percentage of revenue, advertising/marketing spending is similar to neighbors
- Should restrictions exist on advertising, but not marketing?
- Will advertising reductions decrease sales?